

Feasibility Studies

What is a feasibility study?

The purpose of a feasibility study is to determine if a business opportunity is possible, practical, and viable.

Why do a feasibility study?

When faced with a business opportunity, many optimistic persons tend to focus on its positive aspects. A feasibility study enables them to take a realistic look at both the positive and negative aspects of the opportunity.

When to do a feasibility study?

Before starting a new business

The process of defining a new business is critical. A feasibility study is an important tool for making the right decisions. A wrong decision at this point often leads to business failure. Only 50% of start-ups are still in business after 18 months, and only 20% are in business after 5 years.

Also feasibility studies can be done before acquiring an existing business and before expanding an existing business. Knowing how to conduct a feasibility study will help many owners make critical quick decisions to select the right opportunities.¹

The following are guidelines developed for cooperatives to consider when conducting a feasibility study. If a private firm is doing the consulting work for feasibility studies, this guideline will be helpful in evaluating the final product.

I. Marketing Firm Consideration

A. Situation and Competition

1. Number, capacity, and location of competing firms?
2. If no competing firms are in operation were such firms operating previously? Why did they discontinue operations? Are these reasons still valid?
3. Estimate percent utilization of existing firm capacities. Reason for utilization level.
4. Level of technology in competing firms?

B. Source of Raw Product

1. Current production within area
2. Projected production within area
3. Share of local production anticipated for proposed firm
4. Product available from outside of area

C. Assembly and Distribution

1. Transportation cost
 - a. Assembly of raw product
 - b. Distribution of finished product
2. Storage cost
3. Other procurement/distribution costs

D. Facility Requirements

1. Site
 - a. Location, zoning, or other restriction, space of expansion, tax considerations
 - b. Access to transportation— rail, truck, water, air
 - c. Access to waste and sewage disposal facilities
 - d. Utilities— availability, restrictions or special conditions, rates
2. Buildings and Equipment
 - a. Existing building and equipment—available for rent? available for lease?
 - b. New facilities and equipment required—rent? lease?

¹Information contained to this point is drawn from material included in the [NXLevel Guide for Entrepreneurs](#), University of Colorado at Denver, January 2000.

E. Capital

1. Capital requirements for the marketing facility
 - a. Site acquisition (inc. improvements, roads, etc.)
 - b. Facilities and equipment
 - c. Operating capital
2. Can the proposed firm be satisfactorily financed to meet its capital needs and payback capability?

F. Labor supply

1. Is experienced labor available locally? If not, what training is needed?
2. What wage level must be offered?
3. Effect of wage and hour regulations?
4. What unions are (will be) involved in plant operation?

G. Management and supervisory personnel

1. Is qualified management available locally? If not, can competent management be attracted?
2. Are supervisory personnel available? Will training be needed?

H. Organization

1. Legal structure of organization—cooperative, ordinary corporation, partnership, proprietorship, subchapter S corporation
2. Ownership—stock, non-stock, revolving capital, etc.
3. Contractual agreements—production contracts, marketing contract, sales agreements, etc.

II. Product Sales Considerations

A. Identify competing areas for the product to be marketed

1. Volume
2. Quality or special considerations
3. Seasonality of competition—harvest and marketing dates by competing area
4. Market organization
5. Marketing services

B. What type of product is proposed?

1. Fresh, canned, stored, frozen, dried, etc.
2. Further processing
3. Pack—retail, institutional, bulk, etc.

C. Market outlets proposed for the product

1. Wholesaler, retailer, institutional, export, other
2. Reprocessor, product

D. Sales plan

1. Broker, own sales force, jobber, contract
2. Other

E. Transportation

1. Distance to primary markets
2. Mode of transportation—truck, rail, air, water
3. Transportation rates
4. Special handling requirements
 - a. Temperature/humidity control
 - b. Delivery deadlines

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